KPMG Private Enterprise

Evolving the employee value prop

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Erika Whitmore: Well, thank you both, Ryan and Jonathan, and I'll let you introduce yourselves in just a minute here, but really excited about this topic today. You know, I think talking about employee benefits and employee rewards systems, especially for high-growth companies, is super important. So I think this is something our listener—listeners, excuse me—will be really excited to hear about. And so, with that, I'm going to turn it over to you, Ryan. If you could give a brief intro, followed by you, Jonathan.

Ryan McDonald: Sure, thank you, Erica, and I appreciate you having us. I'm Ryan McDonald, and I'm a principal in our Global Rewards practice helping organizations of all sizes, but with a real focus on that emerging growth space with the rewards programs both in U.S. and internationally.

Jonathan Turner: Thank you, Ryan and Erica, really thrilled to be here with you both today. So Jonathan Turner, I'm a senior manager within our Global Rewards practice, and similar to Ryan, I've spent my career working with, you know, small to mid-size organizations as they're growing to really help them, working with HR Finance to develop and design their own total rewards program to meet the needs of their employees. So, looking forward to diving in a little bit more with you all on this.

Erika Whitmore: Well, and I'm super excited to have you both here today, too, because I think this is such an interesting time, right? I mean, if you think about the landscape. And you know, Diane Swonk, our chief economist, had a call last week and put out some, you know, kind of our view of the world, right in terms of the current economic conditions. And I think you know we're in a really interesting time, right? I mean, there's so much going on, you know. We see a lot of the tech companies with some really heavy layoffs, right? The bigger tech companies and some other industries that are frankly doing quite well at the same time, right? The ability to obtain funding, and you know the cash flow coming into these, maybe venture-backed and PE-backed companies, isn't as rich. And so, you know, I think for the next, you know, maybe it's three, maybe it's five quarters, you know. What should these companies be focused on? Well, it's still a tight labor market, right? Because we saw, even though, you know, inflation maybe got just a tiny bit better. You know the labor market is still really tight. I mean they had all those layoffs, and I know some of them haven't necessarily hit the books yet. But they all found jobs, right, and so finding a balance between, you know, these companies are moving fast, right? They need to keep growing. They might not have access to capital, so they've got to be a little leaner, a little meaner, right? How do we keep those employees, right? So how do we give them the benefits and the rewards that they're looking for, so that we keep them, you know, in house. So anyways, just really excited for the conversation today, and to hear what you guys have to say.

Ryan McDonald: Yeah, I agree. It's certainly a really interesting time, especially you mentioned the funding and where we're headed from an economic standpoint. But if you, if you think about what's transpired over the past two to three years in the reward space, as we initiated the pandemic, almost every organization really had that renewed focus on healthcare and employees. So we're increasing healthcare. We're increasing behavioral health. We're increasing childcare benefits. So, the benefits spend went up. That was a fast follow to what you mentioned as a very tight labor market, so compensation costs went up. So, we're emerging from this period where almost every organization had a significant increase in rewards spend and now we pivot to every organization looking for operational expense reduction. So it is certainly a very interesting time to be in the space, but there are options.

Erika Whitmore: Which is what I can't wait to hear about. Because I do talk to a lot of my clients and just companies in the space. And it is a challenge, right? It's a challenge. So maybe we start at one end of the spectrum, right? So maybe we start with, you know, the start-up companies that that literally, you know, 12 to 20, you name it, right? Employees so super small, right? But growing fast, you know, bringing revenue in the door, right, to do doing good things, gaining market share. What does the rewards program for a company like that look like?

Jonathan Turner: Yeah, absolutely. I'd be happy to talk about that. And fortunately, there's a ton of options that have been made available to start-ups in the past decade, two decades as well, that are allowing founders and small start-ups to offer a benefits package, whereas they couldn't do so before. So really, there's a ton of vendors in this space and I won't go through and name any of them. But there's ways in which you can engage with, say, a "PEO"—"a professional employer organization"—and for those of you that aren't familiar with a PEO, it's essentially when you're utilizing another organization to employ your workforce and then kind of lease them back to you or have a co-employment arrangement. And what that allows is this start-up can leverage a larger professional employer organization to handle things like payroll, employment taxes, if you're hiring people in multiple jurisdictions issuing W2s to a lot of those HR functions. But in addition to that, you know, they're offering relatively basic but still competitive and retirement plans and employee benefit programs like medical, dental, vision, life, disability, those types of things as well. And so that's really where we are seeing at least start-ups to, I think you said 12 to 20 employees or so, where they're going to find the most value. It's using a PEO, so that at least they can offer all of those benefits at least, that's a baseline. And then, as they start to grow, and they're thinking about that future growth, how do they want to develop a unique culture, unique employee relations with their folks, with their employees? And what they want that culture to look like as they grow?

Erika Whitmore: Perfect. So, I'm going to throw a curve ball at you, too. This wasn't in the pre-read. So, we will talk about the sustainability model in just a second, right? But how does that—that is nothing, that is like the blocking and tackling, like you said, baseline, right? So it has nothing to do with culture, right? So how does an organization just kind of on their own, with culture? Or is that even contemplated in that model? Or how does culture fit into that?

Jonathan Turner: Yeah, I would say that culture is really unique for start-ups, and, generally speaking, when you're only a dozen or so employees, these are your friends, your family, and you're working 24/7, and so oftentimes culture can be fairly organic as long as you're utilizing communication tools. The hardest thing on culture has been the pandemic and working virtually, and trying to hire new folks and build that social relationship. And in addition to the business relationship and so it's leveraging the tools, whether it's Microsoft Teams or Zoom, or whatever it might be, Slack, and really utilizing those to the fullest. And then also, I always talk about employee recognition. It's how can you give back to your employees in a meaningful way that they understand that, hey? As this organization, these founders, these executives, they care about me, my needs, my interests.

Erika Whitmore: No, that makes a lot of sense. And I think, to your point, culture becomes much more difficult as you grow, right? If so, all of a sudden you're adding, I'm just going to make up numbers, right, 20, 30, 50, 100 heads, or maybe even more, right? That's when it gets harder to manage culture. So, in terms of PEOs, and whether or not it's a sustainable solution, you know, what does that look like? At what point does an organization need to look to something different?

Jonathan Turner: Yeah. So, as we said, you know, a professional employer organization is great. It's great for that small start-up, and you have a few folks. We usually see the financial breakeven happening when you have about 50 or 75 employees. You're still outsourcing all of those HR functions to a PEO and yet you're doing a lot of hiring. You're handling a lot more with respect to employee relations. You may be hiring people overseas, or you would like to, and your structure becomes much more complex, and you're paying that admin fee to the professional employer organization. So that's usually the break-even point. Every organization is going to be a little bit different. If they have a more complex employee structure, maybe it's sooner than that, or if they're in significant rapid growth mode, and they don't have time or the runway to hire and train a full HR team, and maybe it'll be a little bit further down the line, but it's usually, say, 75 up to 100 is going to be that break-even point when it's probably going to be more cost-effective to bring human resources and everything that goes along with it in-house and also you're going to start realizing the benefits of flexibility and customization as well.

Erika Whitmore: Okay, which I think leads us kind of then to the next cohort, right? Which is, you know, the larger companies, or, you know, they're scaling, or maybe, and you tell me, or maybe they even received enough funding, right, to get them to or past breakeven, right? That's probably also a good time to start looking at, "what are my options? And how can I up my game in terms of really getting the most talented people in the door?" So, what is your advice for those organizations?

Ryan McDonald: Yeah, that's a great question. But before getting there, I just wanted to add with a PEO, similar to the challenges with culture and building that culture with higher headcount, leaving a PEO is going to be somewhat disruptive. But you are changing your HR technology. So, you're changing your payroll system. You're changing the benefits that are offered. And of course, with every technology change, there just happens to be some issues. So, when those issues are kind of at a much-larger population, just by the math you're impacting a larger number of people. So that is one of the reasons you consider making that transition a little bit earlier, rather than later, because there will be that disruption. So, when it comes to those larger organizations or those that are, you know, growing very quickly, we definitely recommend every organization—we recommend every organization think about their rewards program as part of that multiyear strategy. The reward spectrum changes considerably, not just in that 50-to-75 landscape, but as you get 100–500, not only does the landscape of what benefits you can offer your population change, but also the different types of risk tolerance and funding strategies. Those also change. So, think about where your organization is headed from a multiyear perspective, and start putting those plans in place from rewards similar to how you operate every other aspect of your business.

Erika Whitmore: You know, that that makes a lot of sense. And you know, I don't know, I'd love to hear your thoughts on this, too, I mean at least at KPMG, right? And we all work here, right? So, I think we all at least think this way directionally. You know, our people are our assets, and while that may not necessarily be quite the view of a high growth start-up, I mean, they've got to have their finger on the pulse, right, because it's just such a tight labor market. And so, you know, the more that you can offer at. Yet, you know, being fiscally responsible, right, is super important. So, what are some of those financial considerations that companies should be thinking about?

Ryan McDonald: Sure. Well, we know benefits are costly, and when you factor in total rewards, they tend to be the largest spend for an organization followed closely by benefits. So, we all say we want to offer the best benefits we possibly can. Is that possible in every case? No. So we have to manage that balance of what we can offer to our people with our, you know, business financial relationships. The one thing that we know you always recommend is organizations to be aggressive in imagining that expense, because there are options that, you know, not every $15,000 program is created equal. You could have a very rich program that costs significantly less than one that isn't being managed strategically. So, we recommend every organization really take that holistic lens of what are the opportunities within your rewards program, specifically your benefits, because there do tend to be options—especially as you grow when new strategies become available.

Jonathan Turner: But I think that's such a great point. Just, you know, I know we're talking a lot about benefits here, but it's also within total rewards, as you just said, looking at it from a holistic perspective, and that includes compensation, equity plans, potentially, mobility, but really flexibility. And I think that this has been as a result of the pandemic and the really demanding labor market, where employees and applicants have had a lot of power. It's how can you offer other low- to no-cost benefits that are highly valued by employees. I think we all know people who—we see our friends who during the pandemic were able to rent an Airbnb on the coast somewhere and work, right, because their employer allowed them to do that, and we're all jealous for those of us that couldn't do it. And so I think that's another way that employees or—excuse me, employers—can attract and retain talent by offering other types of flexible hybrid, work-from-anywhere policies in addition to the core benefit offering. And then, in addition, one of the things that we're seeing a lot is within diversity, equity, and inclusion, and offering benefits that that truly make a statement, but aren't necessarily expensive. So, when we saw things like *Roe v. Wade* being overturned, you know, some organizations said, hey, we still cover abortion. We cover these types of things in our health plan, but you may no longer have access to it. So, what we're going to do, and depending on where you live, is we'll pay for your travel in order to get the care that you need. And similarly, with gender affirmation employers are looking at, you know, how can we treat humans as humans? And what are the qualifications of the prequalifications that members of the health plan have to go through in order to receive treatment, and there's so much more than just surgery. Hormone therapy, you know, it's all about one's gender expression. And so what can you offer to support a member going through that, and whether it's money to help with a name change, or to purchase new clothes so that they can express their gender, and so, really, it's ways and it's looking at your entire workforce, and making sure that you're treating them humanly and taking a stance. And that's going to be a way to tell employees and future applicants who you are, what you believe in, and that's kind of really meaningful as you're trying to attract and retain quality talent.

Erika Whitmore: Well, and the more you do those types of things, like you said, I mean, the word gets out right? Glass door and a number of other platforms, right? You know, the word on the street is probably stronger than what you've got on your website. But so, switching gears, we talked at the beginning about, you know, I don't know if we're in a recession. I think we are, but that's Erica Whitmore's, for you know, opinion, but if we aren't, we are probably close, right? So again, those companies that, you know, they're still growing, right, but they

they've got to reduce their costs, right, because they've got it. They've got to get to breakeven faster, or you know they just have to be more physically responsible. What are certain ways that you can reduce costs without, you know, significantly reducing the benefits?

Ryan McDonald: Sure. And that's what's really fun about our jobs is identifying what those opportunities are. For each employer, those opportunities can be different, and it's our role to identify what those opportunities are. So, there's a few key considerations, but I think I would summarize it as, first, really understand what your current state looks like. So, take a holistic and fresh review. If you haven't done that over the past, you know, year, two years, the landscape is changing considerably in terms of new and innovative vendors. Everyone wants to solve the U.S. healthcare challenge. So, there is an emergence of new vendors that are really strategic and innovative, and the support that they can provide. So, our first recommendation is always take that holistic review of where you stand as a program today to identify some of those changes that you can make in the future. But to get a little bit more tactical within that current-state assessment, if you will, I think the first opportunity is vendors. Do you have the right vendor today for your population, especially if you've grown, you know, spread out across the U.S.? Industry insurance is regional. So, there's it is the same insurer or a carrier that was a fit for you last year, and next year the answer may not be the case, so really evaluate. Do you have the right vendor relationships in place? Then there's also an additional amount of pharmacy solutions. That is an area where almost every organization, if it's not being managed strategically, there tends to be a tremendous opportunity within the pharmacy. And then the last thing I would mention—I'm sure Jonathan has a few more—but would be global, so organizations that are growing internationally. The insurance in the U.S. is an industry that is based on purchasing power. So, for organizations that are operating very siloed in the end in their respective countries, we, by centralizing that imminent administration back to the headquarters here in the U.S., there tends to be a very good opportunity to reduce your global insurance. Spend so that if that's a hot—if that's one of the hot topics that is one of the hot topics we're starting to see right now almost every organization that's operating internationally is looking at their global footprint to see where there are those opportunities to streamline administration.

Erika Whitmore: That is super helpful. Thank you. So, I think to round it out, and I've been wanting to ask this the whole time, so I did hold it until the end, but what are the latest trends and things that employers should be considering? And what are you—what are you seeing as most important to employees?

Jonathan Turner: Yeah, sure. So I know that we've touched on a few of these. Probably I was rambling on about flexibility there for a little while. That's obviously a huge demand, and not just flexibility in your working environment, but also in the benefits that you're able to purchase. And so, having a suite of medical plans, maybe supplemental plans, FSAs, HSAs, student loan refinancing options. People all have different needs from different demographics, different generations, depending on the point within their own lives. They're going to have different needs, right? And so that's a big piece, but also we've seen an increase in virtual and in particular mental and behavioral health support. That has been a growing need for decades and then the pandemic exacerbated it. And so, really being able to provide greater access through virtual mediums, in order to meet with your regular providers, so your PCPs, but really with your therapist as well, and so that everyone has equal access to quality care, no matter their conditions.

Ryan McDonald: Yeah. And Jonathan mentioned the different demographics. One area that we're really recommending every organization take a focus on, and the reason for it is that change in generation. So the way that the Baby Boomers experience their reward program is very different than Gen Z'ers. I know it's not a very controversial statement there, but that generational shift is happening very quickly with Boomers leaving the workforce. They're going to be down to a few percentages in a few short years, replaced very quickly by the Gen Z'ers, and the needs for them are very, very different. They want those virtual solutions. They want that flexibility. They want those behavioral health supports. And Jonathan mentioned DEI. That's, of course, very important to the Millennials. And here, so really take that fresh look with that generational shift in mind.

Erika Whitmore: No, that makes a lot of sense. And I think you know mental health, right? And I think I don't know if that crosses generations or not. I'm sure that it does to some extent. But I think that's super important, too. Well, this has all been extremely helpful. So thank you both for taking the time and walking through all that. Any closing thoughts from either of you?

Jonathan Turner: Yeah. For me, it would just be employers do control their own destiny to an extent. I know there's someone handcuffed by the solutions within the market, but organizations do have the control of what they want to offer, and the way they want to offer it, and by taking that strategic and really laser focus on your rewards program, there is that opportunity to offer a very rich program at a lower cost than an organization that doesn't have that same focus. So, we really implore every organization, especially those that are looking for cost containment, or those that are expecting future growth, to really have that rewards program as part of that multiyear framework. Because, if not, there's opportunity that you're going to be overpaying for what you offer.

Erika Whitmore: That makes sense. That makes a lot of sense.

Erika Whitmore: Well, thank you both for your time. This has been awesome, and I really appreciate you joining our podcast. I think our listeners will find this very, very helpful, and you know what, we'll probably need to have you on again in another year, and I hope that we're going to be talking about how everything's going gangbusters.

Ryan McDonald: So, thank you.

Jonathan Turner: Great. Thanks so much for having us.

Erika Whitmore: Thank you. Have a great day.

Ryan McDonald: Thanks, you, too. Bye, bye!

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Contact

Erika Whitmore
T: 303-382-7717
E: elommen@kpmg.com

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